

Message Text

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EB:JEATKINS (IN DRAFT)

S/S:SRGAMMON

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TO AMEMBASSY TOKYO IMMEDIATE

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TOSEC 472

E.O. 11652: GDS

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SUBJECT: EAST ASIAN PETROLEUM PROBLEMS

PLEASE PASS S/S PARTY FOR HUMMEL

1. THE FOLLOWING SUMMARIZES DATA ON MAJOR FACETS POL SITUATION IN SOME OF THE MORE IMPORTANT PRODUCING AND CONSUMING COUNTRIES IN EAST ASIA.

2. EXCLUDING JAPAN, THE FAR EASTERN COUNTRIES DO NOT HAVE LARGE PETROLEUM REQUIREMENTS, REFLECTING SMALL POPULATIONS OR LOW LEVELS OF ECONOMIC ACTIVITY. AUSTRALIA AND INDONESIA ARE SIGNIFICANT PRODUCERS OF OIL, AUSTRALIA NOW MEETING MOST OF ITS NEEDS AND INDONESIA HAVING BECOME AN IMPORTANT EXPORTER. SOUTH KOREA AND TAIWAN HAVE ALTERNATIVE DOMESTIC ENERGY SOURCES (COAL, GAS, OR HYDRO POWER) REMAINING COUNTRIES ARE EXTREMELY DEPENDENT ON IMPORTED OIL,
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EITHER AS CRUDE FOR LOCAL REFINERIES OR IN PRODUCT FORM. EXCEPT FOR HONG KONG, SOUTH VIETNAM, LAOS, AND CAMBODIA, ALL HAVE REFINING INDUSTRIES WHICH SUPPLY MOST OF THEIR REQUIREMENTS, WHILE INDONESIA, SINGAPORE, AND MALAYSIA

PRODUCE SIGNIFICANT AMOUNTS OF REFINED PRODUCTS FOR EXPORT. AUSTRALIA IN 1971 LED THE AREA IN CONSUMPTION OF REFINED PRODUCTS (187.4 MILLION BARRELS) AND CRUDE OUTPUT ROUGHLY DOUBLED FROM 1971 TO 125 MILLION BARRELS IN 1972. IN THE SAME YEAR INDONESIA PRODUCED 390 MILLION OF CRUDE BARRELS. CONSUMPTION OF REFINED PRODUCTS IN THE PHILIPPINES, SOUTH KOREA, AND SINGAPORE IN 1971 RAN TO 60-80 MILLION BARRELS; INDONESIA, SOUTH VIETNAM, AND THAILAND, 40-50 MILLION; MALAYSIA, HONG KONG, NEW ZEALAND, AND TAIWAN, 25-35 MILLION. AMOUNTS CONSUMED IN LAOS AND CAMBODIA WERE INSIGNIFICANT. FOR MANY OF THE POORER LESS DEVELOPED COUNTRIES, THE INCREASE IN OIL PRICES MAY BE AS DISRUPTIVE AS THE REDUCED SUPPLY.

3. INDONESIA, THE MAJOR SOURCE OF PETROLEUM IN ASIA, EXPORTS ABOUT 75 PERCENT OF ITS OIL TO JAPAN AND MOST OF THE REMAINDER TO THE UNITED STATES. INDONESIAN OIL PRODUCTION HAS BEEN INCREASING YEARLY. THE GOVERNMENT WHILE CONTINUING TO PUSH PRODUCTION IS NOT SANGUINE THAT THE RATE OF INCREASE CAN BE ACCELERATED SUFFICIENTLY TO BE SIGNIFICANT IN THE CURRENT SITUATION. BECAUSE OF ITS MUSLIM POPULATION, THE INDONESIAN GOVERNMENT IS SENSITIVE TO EVENTS IN THE MIDDLE EAST AND GENERALLY SUPPORTS THE ARAB POLITICAL POSITION, ALTHOUGH WITH FAR MORE CAUTION THAN MALAYSIA.

4. AUSTRALIA PRODUCES TWO-THIRDS OF ITS CRUDE REQUIREMENTS AND HAS EXTENSIVE NATURAL GAS RESERVES. THE MINISTER FOR MINERALS AND ENERGY ANNOUNCED ON OCTOBER 23 THAT THERE WAS NO NEED FOR CONCERN OVER OIL SUPPLIES; THAT THERE HAD BEEN NO INTERFERENCE IN THE SHIPMENT OF M.E. OIL NOR WAS ANY EXPECTED, THAT NORMAL STOCKS OF IMPORTED CRUDE WERE ON HAND, AND THAT IT WOULD BE SOME TIME BEFORE ANY IMPACT WOULD BE FELT IN THE UNLIKELY EVENT OF A CUT IN IMPORTS. THESE STATEMENTS DO NOT MATCH THE FACTS WITH REGARD TO ARAB OIL SHIPMENTS, BUT RAPIDLY EXPANDING DOMESTIC OUTPUT SUGGEST AUSTRALIA'S OIL SITUATION IS MANAGEABLE FOR SOME TIME.

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5. SINGAPORE, THE OIL REFINING CENTER OF SOUTHEAST ASIA AND HEADQUARTERS FOR INTERNATIONAL OIL COMPANIES OPERATING IN THE REGION, HAS EXPERIENCED SHORTAGES OF CRUDE OIL FOR ITS REFINERIES FOR SOME MONTHS- MOST OF ITS IMPORTS COME FROM KUWAIT (ABOUT ONE-HALF), IRAN, AND SAUDI ARABIA. ITS EXPORTS GO PRIMARILY TO JAPAN AND SOUTH VIETNAM, AND ALSO TO THAILAND AND MALAYSIA. WHEN THE M.E. WAR BROKE OUT, THE SINGAPORE GOVERNMENT WAS CONCERNED ABOUT ITS SUPPLIES OF CRUDE OIL AND PRIVATELY CONSIDERING SOME SYSTEM OF RATIONING FOR LOCAL USE AND BUNKERING. AT THE END OF THE FIRST WEEK IN NOVEMBER THE SINGAPORE GOVERNMENT "REQUESTED" THE MAJOR OIL COMPANIES TO CEASE OIL SHIPMENTS FROM SINGAPORE REFINERIES TO U.S. MILITARY INSTAL-

LATIONS AND TO CEASE BUNKERING U.S. NAVAL VESSELS. IT

PLANS TO ISSUE A PUBLIC ORDER NOVEMBER 12 FORBIDDING THE SHIPMENT OF ANY OIL TO ANY EMBARGOED DESTINATION, INCLUDING U.S. MILITARY. MEANWHILE, ESSO SINGAPORE -- THE ONLY COMPANY IN SINGAPORE DEPENDENT ON SAUDI ARABIAN OIL AND THE ONLY COMPANY WITH SUPPLY CONTRACTS WITH THE U.S. MILITARY (APPARENTLY INCLUDING ONE FOR THE ARVN) -- COMPLIED WITH SAUDI ARABIAN DEMANDS UPON THE MAJOR OIL COMPANIES TO REFRAIN FROM SUPPLYING ANY U.S. MILITARY REQUIREMENTS WORLDWIDE.

6. OIL SUPPLIES MORE THAN 70 PERCENT OF THE ROK'S ENERGY REQUIREMENTS AND IS COMPLETELY IMPORTED. SOUTH KOREA CONSUMED 72.6 MILLION BARRELS OF REFINED PRODUCTS IN 1971. ALMOST 95 PERCENT OF SEOUL'S OIL IMPORTS ARE FROM MIDDLE EAST (PRINCIPALLY KUWAIT AND SAUDI ARABIA). THE ROK'S MAJOR OIL SUPPLIERS -- U.S. FIRMS TEXACO, GULF, AND UNION -- HAVE REDUCED SHIPMENTS BY AN AVERAGE OF 26 PERCENT. NOVEMBER REFINERY OUTPUT WILL BE 21 PERCENT BELOW PLANNED PRODUCTION. THE ROK ASSISTANT COMMERCE MINISTER WILL BE TRAVELING TO SAUDI ARABIA SEEKING TO ASSURE OIL DELIVERIES AT THE PRESENT LEVEL. ROK DIPLOMATS IN JIDDA RECOMMEND SUPPORT OF THE ARAB POSITION TO OBTAIN OIL SUPPLIES AND THE ROK ASSISTANT ECONOMIC AFFAIRS MINISTER HAS PROBED FOR U.S. REACTIONS TO A POSSIBLE ROK CONDEMNATION OF ISRAELI "AGGRESSION." ROK OFFICIALS WILL ALSO APPROACH GULF AND TEXACO TO URGE REDUCTIONS IN CUTS THEY SECRET

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BELIEVE UNJUSTIFIABLY SEVERE. SOME INDUSTRIAL CUTBACKS HAVE ALREADY BEEN ORDERED BUT EXPORT INDUSTRY HAS BEEN SPECIFICALLY EXCEPTED. A MULTI-STAGE GENERAL RATIONING PROGRAM IS PLANNED BUT WILL NOT BE INSTITUTED IMMEDIATELY. ALTHOUGH AWARE OF SOME RAMIFICATIONS OF THE MIDDLE EAST CRISIS, THE POPULATION IS NOT PREPARED FOR A RATIONING CRISIS. GOVERNMENT POLICY STRESSING ONLY POSITIVE ECONOMIC NEWS MAY RAPIDLY PROVE SELF-DEFEATING. THE GOVERNMENT IS NOW HIGHLY CONCERNED OVER THE DEPENDENCE OF THE COUNTRY'S BOOMING ECONOMY ON AMERICAN OIL COMPANIES WHO BY HANDLING ALL ROK OIL IMPOS AND HOLDING SUBSTANTIAL SHARES IN ROK REFINERIES CAN ALMOST INSTANTLY CRIPPLE ROK INDUSTRIES BY DELIVERY CUTS. SEOUL WILL NOW SEEK DIRECT GOVERNMENT-TO-GOVERNMENT OIL PURCHASES TO REDUCE ITS VULNERABILITY BUT SAUDI ARABIA HAS ALREADY WARNED THAT SUCH ARRANGEMENTS ARE IMPOSSIBLE UNTIL 1976.

7. THE PHILIPPINES, WHICH CONSUMED 61.6 MILLION BARRELS OF REFINED PRODUCTS IN 1971 AND IMPORTS MOST OF ITS CRUDE OIL FROM THE M.E., WAS ALREADY EXPERIENCING A SEVERE OIL SHORTAGE BEFORE HOSTILITIES BROKE OUT. INTERNATIONAL OIL COMPANIES, CAUGHT IN A SQUEEZE BETWEEN GOVERNMENT REGULATED PRICES AND SHARPLY RISING POSTED PRICES, HAD REFUSED

TO INCREASE SUPPLIES AT RATES EQUAL TO RISES IN CONSUMPTION. THE SITUATION HAS BEEN FURTHER EXACERBATED BY THE ARAB REDUCTIONS IN CRUDE SUPPLIES AND THE COUNTRY IS THREATENED WITH

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